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C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 003511

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PASS USTR FOR DDWOSKIN, SCHANDLER

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TAGS: [KIRC](#) [KPAO](#) [EAGR](#) [ECON](#) [ETRD](#) [OIIP](#) [WTRO](#)

SUBJECT: WTO DOHA ROUND - CANADA: LOOKING TOWARD HONG KONG

REF: A. (A) SECSTATE 211956

[1](#)B. (B) OTTAWA 3484

Classified By: Econ MinCouns Brian Mohler; reasons 1.5(b) and (d)

[1](#)1. (SBU) Summary: Despite differences on the details, notably over the future of Canada,s single desk Canadian Wheat Board, Canadian WTO negotiators see themselves as working in close cooperation with the U.S. on the elements of a package for Hong Kong. They stress that they have not given up on the original Hong Kong objective of achieving full agreement on modalities for agriculture and non-agricultural market access. End Summary.

[1](#)2. (SBU) Econ MinCouns and econ officer met with Assistant Deputy Minister John Gero and Director General for Trade Policy Terry Collins-Williams of International Trade Canada to share points in ref (A) and discuss Canada,s views of prospects for Hong Kong. Gero noted the continuing close cooperation between U.S. and Canadian negotiators and stressed that we share the same broad objectives. He said that Canada,s main ambition for a Hong Kong outcome is, in a word, ambition: achievement of the original objective of full agreement on modalities for all three pillars in agriculture, as well as on nonagricultural market access. Canadian officials see Hong Kong as the last chance for a political deal that would set the stage for a timely conclusion of the agreements. In their view, even if political leaders reach agreement, at least nine months, worth of technical work will be needed to deliver a package by December 2006. In practical terms, therefore, the political agreement must come by February at the latest. Gero observed that &ministers are really engaged now⁸ and that the desire for a result is clearly there among key participants. He expressed anxiety, however, over the lack of intensive negotiation in the runup to Hong Kong, citing the fact that he is still in Ottawa and not in Geneva at this point in the proceedings as clear evidence of &process lacunae⁸ that may make it impossible to arrive in time at a workable package for ministers. As to Canada,s role in the negotiations, he said that Canada,s chief advantage is in being &fleet of foot⁸; because Canadian negotiators are not trying to speak for large blocs of other countries, they retain flexibility that may help them move the negotiations forward. In response to a question from EconMinCouns, Gero speculated that the EU,s Trade Commissioner Mandelson probably has more room to maneuver on some of these issues, and hoped that he would not commit Lamy,s mistake at Cancun of waiting too long to move.

[1](#)3. (SBU) Gero and Collins-Williams offered the following snapshot of Canada,s positions on key issues:

Agriculture

Canada wants to see specific, large reductions in domestic support. In this context, he characterized the U.S. offer as a serious one but urged a little more movement) the U.S. should be offering cuts that go below actual spending, not just our legal ceiling. On blue box measures, Canada supports a reduction to 2.5% of total spending but wants to see additional rules limiting what can be transferred into the blue box, e.g. countercyclical payments. Gero described this as a key objective for Canadian farmers. Predictably, our interlocutors offered a strong defense of the Canadian Wheat Board, complaining that efforts to include restrictions on state trading operations were outside the scope of a negotiation on export subsidies.

On agricultural market access, Canadians are highly critical of the European position on sensitive products, describing it as a &false debate.⁸ In their view, the tariff formula and negotiations on sensitive products should be approached as separate issues; European conflation of the two is resulting in unproductive &mixing and matching⁸. They are trying to convince the Europeans to divorce the two issues; our objective should be a methodology for overall reductions and a separate request-offer type negotiation on sensitive products. This approach would allow the EU to move further on overall reductions while protecting sensitive products. Gero observed that, in the Canadian view, increases in tariff-rate quotas would yield the most measurable market access gains. He noted that the U.S. and Canada are cooperating closely on this issue.

Nonagricultural market access (NAMA)

Canada and the U.S. are closely aligned on these issues. Canadians would like to see more sectoral initiatives; they also want to see Brazil and India, in particular, offer more cuts in applied rather than bound tariff levels. They are also concerned that negotiations on non-tariff barriers are less advanced than they should be, and that we need some practical resolutions in this area.

Services

Gero commented that we haven't come very far on this portfolio and said that Hong Kong should define both an overall level of ambition and complementary bilateral mechanisms. He described the European approach as "saleable" and supported the concept of "plurilateral" (e.g. sectoral) negotiations. Predictably, he flagged the issue of Mode 4 - movement of professionals - which has also been a difficult issue in the US-Canada-Mexico Security and Prosperity Partnership (SPP) talks. While expressing his understanding of the Congressional position on inclusion of immigration issues in trade packages, he observed that we won't get India without this.

Rules

Also predictably, Gero focused on our differences on rules, another bilateral sore point in light of the continuing softwood lumber dispute. Canada wants to see greater predictability and better definitions. He called for more movement from the U.S. in this area, particularly on compliance, describing the U.S. position as outside the mainstream and saying that a total package will not be possible without something on rules. (Comment: a recent WTO ruling upholding a USITC finding of threat of injury in the softwood dispute, effectively countering a NAFTA panel ruling on the issue, put a notable crimp in Canadian government claims to have "won every case" in its multi-pronged litigation against U.S. countervailing duties. End Comment.)

Finally, Canadian officials praised continuing work on trade facilitation, which they see as a "sleeping" issue of more practical importance to exporters than many of the higher-profile issues under negotiation.

Hong Kong in the Canadian Political Context

14. (C) Embassy Comment: The GOC is in the process of falling; the Prime Minister is expected to dissolve Parliament on Monday, November 28. Trade Minister Jim Peterson, Agriculture Minister Mitchell, and development minister Aileen Carroll remain ministers until after the next election, expected for January 2006. While Peterson and the rest of the Liberal leadership, now in full campaign mode, have chided the opposition for irresponsibly weakening Canada's negotiating position on the eve of Hong Kong, (ref. B) permanent officials appeared unconcerned about any real repercussions. 30% of Canada's GDP comes from trade (with the vast majority of its exports going to the U.S.) and the country is running a healthy trade surplus thanks to rising energy prices. Despite periodic anti-globalization demonstrations, particularly in Quebec, public support for trade liberalization has been consistently in the 70 percent range since the key debate in the 1980s about the U.S.-Canada Free Trade Agreement; if anything, Canadians see multilateral liberalization as an effective hedge against overdependence on the U.S. market.

15. (SBU) The relatively decentralized Canadian government structure may be more of a hurdle for Canadian negotiators if they come under pressure on issues such as the Canadian Wheat Board and federal supply management schemes. Canada lacks the equivalent of the U.S. interstate commerce clause; provinces remain responsible not only for large parts of government procurement, but also for key services such as securities regulations, and interprovincial trade barriers remain a headache for Canadian business. Minister Peterson met with provincial trade ministers on November 22 (ref. b) to discuss Canada's approach to Hong Kong. While Gero said that the group had placed "no more" emphasis on supply management than at previous meetings, provincial ministers made it clear in the press that they expect the government to stand its ground on supply management in the dairy and egg sectors. The Canadian delegation, in addition to ministers and federal officials, will include not only representatives of Canada's provinces, but also municipal officials. However, the expected Parliamentary delegation to Hong Kong is now unlikely to materialize; campaigning will have begun in earnest by early December. End Comment.

